THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE business outlook has improved during July, and expectations of a Fall upturn have been strengthened as compared with a month or two back, when labor troubles and political uncertainties were at their worst. Crop prospects, favorable since the beginning of the season, continue exceptionally good. The depressing influence of the decline in the stock and bond markets is passing off, both having recovered a substantial part of their losses, and sales of new security issues to raise capital for the industries have improved over earlier months. Commodity prices also have rallied on the average, despite adjustment of some farm prices to new crop prospects.

The opinion now seems to prevail that the drop in the stock market was overdone, considered in relation to the business situation. There was general recognition of the fact that in some industries a slackening of production during the Summer was indicated, following the Spring "boom," and it was uncertain just how far the decline would go. However, as between those who expected the recession to be mild and those who feared it would be substantial, the former have the best of it so far. The month of August may bring more pronounced curtailment in some lines, but the slackening to date has been hardly more than seasonal.

Labor Troubles on the Decline

The most serious apprehensions as to the Fall prospect grew out of the labor situation. It was impossible to feel assurance in the outlook as long as each day's news emphasized the danger that minority groups of workers might disrupt industrial operations, run up costs, and even tie up plants where the majority wanted to work; and for a time there seemed to be no successful defense against these tactics. Maintenance of high standards of pay and working conditions gave no assurance against trouble, since the strikes were not aimed primarily at wages and hours, but at recruiting for the unions and building up their power. Moreover, settlements with the unions seemed ineffective. The General Motors Corporation, which in February signed a six months' union agreement, nevertheless had to contend with two hundred "sit downs" or other interruptions of varying seriousness in the subsequent four months, due to irresponsible or recalcitrant minorities.

Where these conditions prevail costs go up, production and trade are interrupted, and confidence disappears. Hence the indications that labor troubles are on the decline, and that the major industries will have at least a respite from the unionization drive, stand as the most important development of the month. Unquestionably this respite is due to the fact that the drive ran into the force of an unfavorable public opinion. The failure of the strike against the independent steel companies demonstrated that the majority of the workers wanted to work, and that given protection they would work, at the wages and conditions previously established. It has now been shown that public opinion is on the side of the majority, and intolerant of the tactics of a minority which would keep people out of work against their will. The unions have had to back away from this evidence of public disapproval. In the General Motors case, the sit downs and interruptions ended abruptly.

No one would claim that a long period of industrial peace is in sight, but it is plain that there will be less trouble in the near future than in the recent past. Relieved of this unsettlement, business men who have suffered from it can get ahead with their work. They can figure their costs, which are the basis of all planning, with greater assurance; and where plant efficiency has been reduced they can tackle the job of restoring it. Naturally confidence is strengthened, and if teamwork and cooperation can be reestablished to maintain productive efficiency and check the uptrend in industrial costs one of the real anxieties in the situation will be dispelled. Everyone has recognized the menace of the rise in costs. By compelling price advances

it has threatened to unbalance price relations and interfere with trade; it has already reduced profit margins; and if it cut too heavily into corporate earnings it would diminish capital expenditures, which are needed to keep the recovery going.

Brilliant Farm Prospects

Assuming that the labor situation will be more stable, the strongest reason for expecting a good Fall trade is the agricultural prosperity. The steady rise in the farmers' income during the past four years has been a major influence in recovery, and it seems certain to continue this year. The Standard Statistics Co. has made a preliminary estimate of the farm value of agricultural production in 1937-38, and places it 9.9 per cent above last season. This allows for a downward adjustment of prices, from an old to a new crop basis. Of course the farmer will have to pay a similar increase in prices of some of the goods he buys, such as clothing and general merchandise; but feed, which is the big item in livestock, dairy and poultry farming, will be cheaper, and debts and taxes are taking less of his income than in any recent year.

Evidently there should be another strong demand for implements, fencing, lumber, and all the other things the farmers use in addition to their household and personal goods. It is a general rule that when farmers have good crops and good purchasing power there is no real basis for pessimism. The crops represent new wealth and if they have a fair exchange value for the products of the industries the entire industrial and business situation is supported.

Wheat growers in this country this year have precisely the combination of circumstances which produces a maximum income. The European importing countries have but moderate wheat crops, and the Canadian crop is in some sections a failure, the deterioration in June and early July having been the worst ever recorded. Total world supplies available for the next twelve months are the smallest since 1926. The United States, however, is harvesting the best crop since 1931, and after having exported no wheat to speak of since that year, will become this year the world's largest exporter, according to the Department of Agriculture. The condition on July 1 indicated a crop of 882,000,000 bushels, which would point to an exportable surplus of around 175,000,000. It is the trade opinion that the crop declined during July, but the general situation will not be altered. The growers will have 200,000,000 to 250,000,000 bushels more wheat than last year, and sell it 15 to 20 cents higher, despite the adjustment of the market from a domestic basis, well over foreign quotations, to an export basis, 15 to 20 cents below Liverpool. The rise in foreign markets has made the difference.

Cotton and corn have the best prospects in several years, and are expected to yield larger incomes even at lower prices. The cotton acreage is 10 per cent larger than last year. No Government estimate of the crop will be made until August 9, and August and September are both critical months, but according to private reporters the condition at this time is about as good as is ever known. If the cotton crop turns out to be 14½ or 15 million bales the loss of export markets during the past four years will be felt. Prior to the A.A.A., the normal export demand for American cotton was considered to be 8,000,000 bales or more, but at that time foreign cotton-growing countries produced only 10 to 11 million bales. Now the production of foreign growths is 18,000,000, and the acreage planted to cotton in foreign countries is still expanding. In the season just ended exports of American cotton approximated 5,500,000 bales. The outlook for an increase is not hopeful unless it is induced by a price decline, and the market has been easy during most of the month.

The corn crop is highly promising, some private observers looking for almost 3,000,000,000 bushels. The price of December corn in Chicago has dropped about 16 cents during the month, and at 70 cents is 35 cents cheaper than the cash price last December. Lower corn prices should be welcomed, for they correct an abnormal situation. The short crop last year threw relationships between feed and livestock prices out of balance, and the feeding industries will be better off with a normal supply, while higher yields will make up for the lower prices to growers who sell their corn on the market. The livestock industries will not have as much stock to sell this Fall as last, but they will get better prices, and have a greater margin of profit. Returns to producers from the wool clip this year will be nearly the largest on record.

The Trade Situation

Unquestionably the industries are fortunate that circumstances have combined to produce this favorable outlook for the farmers. With few exceptions manufacturers are advancing prices for Fall goods, under compulsion of higher wages and shorter hours which raise labor costs, and higher prices for raw materials; and the upward trend was established before the farm income could be estimated, and possibly without much regard for it. If foreign wheat crops had been large and an export outlet for United States wheat had been lacking, or if farm production had been unbalanced in any other way, the Fall prospect would be much less favorable; and it is more than likely that inability to pass on the higher prices to consumers would have blocked trade

and caused industrial unemployment. Business makes progress only as all groups in the economic system progress together.

Even with the good farm outlook, buyers who have attended the openings of new Fall merchandise in the wholesale markets during the past month have been operating conservatively. At the openings for the last Spring season rising commodity prices stimulated forward purchases, in some cases to an excessive extent, requiring more than the usual clearance sales this Summer to move the goods. With staple commodity markets more settled, and finished goods marked up an average of 5 to 15 per cent over a year ago, merchants are guarding against over-commitments; they are covering for the early Fall, but leaving later needs to be ordered after they feel out their trade. This is a rational attitude; it will prevent disappointments, and make for orderly markets.

Retail trade has been spotted, and in some sections not up to expectations. Department store and chain store sales in June were 7 per cent over last year, in dollars. In the first half of July the increase in New York City department stores was 3½ per cent, and Sears, Roebuck & Co., which has been running 20 per cent ahead, dropped back to only 5.5. After allowance for the advance in prices, which according to the Fairchild index of department store merchandise has been 9 per cent, the volume of goods moved obviously has not gained comparably with the increase in production, and inventories are larger. However, the period of 1936 with which comparisons are made included the distribution of the veterans' bonus, which may account for the seeming slackening. In any event pessimism as to retail trade hardly seems warranted, considering the level of industrial payrolls and farm income.

Industrial Recession Moderate

In the industries July is not expected to be an eventful month. Except for the merchandise openings trade is normally slow and the trend of production is downward. After the record-breaking activity in many lines during the first six months, and the covering of forward requirements, a considerable slackening in July would not have been surprising, but the recession has been moderate.

Operations in the steel industry recovered to between 80 and 85 per cent after Independence Day, as the companies which had been strike-bound got going again, and have since held in that range. New business in steel has continued below shipments, the mills working on rail business are running out of orders, and buying for the new automobile models has hardly begun in volume. On the other hand, mills still have very large backlogs in important products, notably sheets. The trade reviews expect that operations may drop in August, but automobile orders will be a steadying influence, and the strong market for scrap indicates that the industry is optimistic.

Automobile production has entered the seasonal decline, preparatory to the changeover to new models, except that General Motors and Chrysler have continued to run full, still under pressure to make up the time lost in the strikes. The chief interest from now on will be in the prices of the new models, which will have to be raised due to higher wages and materials, and whether buyers can or will pay the increases.

In the textile industries the backlogs of unfilled orders are being worked down, and the new season's business is slow getting under way. Production has slackened moderately from the Spring peak, but is still at a high rate; too high, in fact, in the opinion of conservative elements who fear that goods will pile up against the market.

Capital Goods Industries

Reports of June sales from the machinery and equipment industries were generally good, considering the uncertainties prevailing and the heavy buying earlier. Machine tool orders during the month, although 32 per cent below the all-time peak reached in April, were 49 per cent above last year, and the industry is sold into the Winter. There is not much doubt that the modernization of factory equipment will keep going. The pressure of high labor costs requires the industries to keep up to date, and reports of projects for plant improvement come along steadily. The capital goods industries are still operating well below pre-depression levels, and naturally there are no indications of an over-expansion which would foreshadow a drop in activity.

The rail equipment industry is one division of capital goods in which recent developments have been somewhat disappointing. Car builders and steel rail manufacturers are running out of the orders placed last Winter, and the secondary buying movement that was hoped for has not appeared. Net railway earnings in May and June took an unfavorable turn despite a satisfactory increase in the gross. Enlarged maintenance expenditures account partly for the drop, but higher operating expenses and taxes were a great factor. Moreover, the roads are likely to have to bear a wage increase which will add another $100,000,000 or more to their costs. This will require them to keep their budgets for maintenance and capital expenditure trimmed despite the need for new equipment.

Building contract figures for June were reassuring after the disappointing totals in May. According to the Dodge Corporation's reports, daily average awards made a contra-seasonal increase of 25 per cent over the previous month,

and were 36.5 per cent over a year ago, the best gain since February. In the first half of July another contra-seasonal increase over June was made, due chiefly to inclusion of the Queens vehicular tunnel in New York City. The record of privately owned building during the past year and a half is as follows:

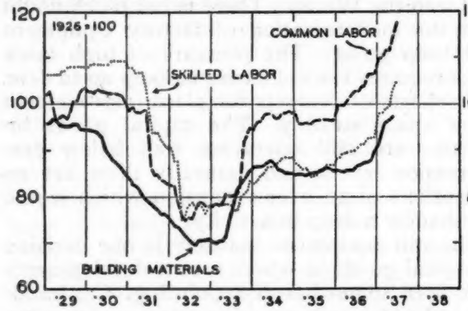
Building Contract Awards
(In Millions of Dollars)

	Apartments	Private Dwellings	Factories	Commercial	Public Utilities
1st Quarter, 1936	24	65	41	45	48
2nd " "	26	133	49	65	46
3rd " "	63	127	53	71	61
4th " "	45	119	55	68	51
1st " 1937	64	112	72	74	74
2nd " "	54	162	85	79	62

Whether these figures are construed as disappointing depends chiefly on what the expectations were.

Building Costs

It is important to note that the June gain in building was made in the face of a rapid rise in the cost of labor and materials, which is illustrated by the accompanying chart. The chart shows hourly rates for labor paid on jobs (unweighted arithmetical averages) in twenty cities from coast to coast, as reported by the Engineering News Record. The wholesale prices of building materials are from the Bureau of Labor Statistics. All are reduced to a common base of 1926 = 100.



It is impracticable to represent building costs for the whole country by a blanket index, due to great variations between different types of buildings, different classes of labor used and local conditions. The charted indexes, however, show the violent movement of costs.

As compared with a year ago rents are up about 10 per cent, according to most indexes. In many localities the ratio between building costs and rents is not favorable. Although construction is going ahead, it is undoubtedly being restricted by high costs.

Money and Banking

The most interesting development of a monetary nature during the past month was the drying up of gold engagements in the London market for shipment to the United States. While actual receipts of gold from Great Britain amounted to $50,000,000, new commitments fell off to $15,000,000, all but $2,000,000 of which were entered upon during the first nine days of the month. Latterly the flow of funds has appeared to be in the other direction, as dollars have tended to be weak in terms of sterling and guilders, and the Treasury's inactive gold fund experienced its first decrease since it was set up in December last.

The decline in the "inactive gold" was revealed by the daily Treasury statement to have taken place on July 20 in the amount of about $42,000,000 reducing the aggregate of the fund from a peak of $1,213,000,000 to $1,171,000,000. Subsequently, the Federal Reserve Board, reporting for the week ended July 21, indicated a moderate drop in the total monetary gold stock, the first instance of a decrease in over a year. Owing, however, to continued receipts of gold from Europe and the Far East, both the "inactive gold" and the total monetary stock again increased; the former recovering $31,000,000 to $1,202,000,000 by the 28th, the latter rising rather sharply to a new high record of $12,433,000,000.

Factors in the Decline of Gold Stocks

It has been explained officially that one of the reasons for the dip in gold holdings was an exchange of United States gold for Chinese silver, in accordance with an agreement between the governments of the two countries announced early in the month. Apart from this, there evidently has been some shift in the balance of payments heretofore running so strongly in favor of the United States. Dehoarding of gold in London fell off sharply during the past month, and this probably means less footloose capital from that source seeking transfer to this country. It is thought also that fears abroad of special taxation of foreign investments, together with talk of possible disclosure to other governments of foreign balances in this country, may have induced some foreign capital repatriation, or shift of holdings from dollars into sterling and guilders. Further, the Japanese are understood to be transferring to London a substantial part of the proceeds of recent gold shipments from Japan to this country.

It should be added that, according to Department of Commerce calculations, the United States for more than a year has been running an adverse balance of payments on ordinary trade and service accounts. Thus, the computed grand total of all such payments last year showed a deficit of $132,000,000, which would have been $312,000,000 had purchases of silver amounting to $180,000,000 been included in commodity trade, instead of being counted as a treasure movement, as they have been in the official statistics for the past three years. This year, with the merchandise import bal-

ance for the first five months $123,000,000 greater than a year ago, and with tourist requirements also substantially higher, the adverse balance of trade and service items must, if anything, be increased. In other words, had it not been for the heavy movement of capital seeking safety and profits in this market, the United States might have lost rather than gained gold long ago.

Should economic factors be shaping towards a reduction in the redundant gold stocks of the United States, the change would be a wholesome one, in the interest not only of a sound world economy, but also of good credit management in this country. It would relieve the United States Treasury of an embarrassing problem in connection with the purchase and sterilization of gold with borrowed funds; moreover, there are ample reserves to spare. Counting the inactive gold fund at $1,200,000,000, the Treasury Stabilization Fund at $1,800,000,000, and member bank reserves impounded by the doubling of reserve requirements at $3,000,000,000, the reserve of available cash over and above domestic needs foots up to around $6,000,000,000. Against this, total foreign funds in this country have been estimated somewhat in excess of $8,000,000,000, including $2,000,000,000 in bank balances, and the remainder in securities and other investments, a large part of which falls definitely outside the classification of "hot money."

Major Gold Outflow Unlikely

Probably anything approaching a major reduction in our superfluous gold holdings is too much to hope for, in view of continued uncertainties in the foreign situation and outlook for improvement in our trade balance attendant upon marketing of better crops this Fall. But at least the rapid rise in these holdings may be checked.

During the period July 1-29, total gold imports, plus releases from earmarking, have been reported as $110,000,000 compared with $262,000,000 in June and $155,000,000 in May. Of the July imports, $50,000,000 came from Great Britain, representing deliveries of metal bought prior to July 9 when purchases for the most part became unprofitable. Second in the list of contributing countries was Japan with $38,000,000, while Canada, Australia, Holland, India, Switzerland and France made up the balance.

The movement of gold from Japan is an important one, the total shipments to us from that country since March having reached $130,000,000, of which $86,000,000 has been received and $44,000,000 is en route. Within the past month the Japanese Government has announced its intention of revaluing the gold reserve of the Bank of Japan to accord more nearly with the international value of the yen. This, as explained, does not affect the value of the currency, but is calculated to yield a profit of 800,000,000 yen, out of which additional gold is expected to be available for export in support of yen exchange now under pressure of trade balances running heavily against Japan.

Gold Deals with China and Brazil

Mention is in order of transactions during the month involving sale by the United States of gold to China and Brazil. In the case of the deal with China, the operation took the form of an exchange of gold for Chinese silver on terms and in amounts not stated. In the arrangements with Brazil, on the other hand, the United States agrees to sell gold up to $60,000,000 in exchange for dollar balances, with the further understanding that the United States would be willing to grant dollar credits to Brazil against the gold so acquired. Brazil, in turn, agrees to use the gold to build up her central bank reserve and to stabilize the milreis in terms of the dollar, and in addition enters upon certain mutual engagements designed to foster and protect trade between the two countries.

By these agreements, the United States Treasury will be able to dispose of a small fraction of its surplus gold stock, at the same time accommodating two friendly nations desirous of adding to their gold holdings. Insofar as these agreements represent an effort at international cooperation in the solution of trade and exchange problems they are to be commended, and doubtless the arrangements will tend to strengthen the commercial ties between the countries involved. It must be said, however, that the acceptance by the United States of silver in exchange for gold cannot be regarded with satisfaction, the gold being a readily merchantable commodity, whereas no important quantity of silver could be sold by the Treasury without breaking the market.

The Banking Position

Aside from the changes in gold and foreign exchange, the banking position revealed no startling developments during the month. Currency outstanding increased seasonally over the July 4 holiday, but thereafter subsided in accordance with the usual tendency. Excess reserves of the banks continued to fluctuate in the neighborhood of $900,000,000, rising in one week to $960,000,000, or slightly higher than had been reached previously since the increase of reserve requirements effective May 1, and dropping at the close of the month to $810,000,000. With the period of seasonal increase in credit and currency demand coming on, it is possible that the July high point for excess reserves may mark the peak for the balance of the year, unless, of course, the Reserve Banks should take action to increase reserves by adding to their holdings of commercial bills or Government securities. Issuance by the Trea-

sury of silver certificates against silver taken from China in exchange for gold will tend, of course, to augment bank reserves by an amount dependent upon the quantity of silver involved.

Trend of commercial, industrial and agricultural loans continues favorable, with a rise of approximately $120,000,000 for the weekly reporting member banks in the four weeks ended July 21, to a new high point for the year. Loans to brokers, on the other hand, declined, as did investments in securities, following an upturn in June attributable to the influence of June 15 Treasury financing. On balance, therefore, total loans and investments failed to carry forward the advance begun in June, and deposits likewise showed a decrease.

Money and Bond Markets

The money market has been generally steady, with a somewhat easier tone, as evidenced by the sensitive Treasury bill rates. These, on weekly offerings, moved in a range of 0.485 to 0.514 per cent for 273-day bills during July, compared with 0.545 to 0.619 per cent during June.

In the bond market, high grade issues were generally firmer, under the quiet leadership of United States Government obligations. Average yields on 8 long-term Treasury bonds, as computed by Moody's Investors Service, declined from 2.47 to 2.36 per cent between July 1 and the 29th, while average yields on 30 top grade corporation issues eased from 3.29 to 3.23 per cent. On this basis Government and high grade corporate bonds have recovered about half the decline recorded during the early months of the year, but the BAA bonds have not done as well. During July, speculative railroad bonds were affected adversely by demand for railroad wage increases, while utilities perked up a bit following defeat of the Supreme Court reorganization bill. In the foreign group, Japanese issues were soft on the Far Eastern political situation.

New financing was in fair volume during July, following substantial activity during June. For the first six months of the year, total new corporate financing, as tabulated by the Financial Chronicle, was about a third less than in the corresponding period a year ago. However, it is interesting to note that the volume of corporate issues involving new capital continued to increase. Such issues totaled about $800,000,000, a gain of 72 per cent over the amount issued in the same period of last year.

In connection with Government securities, a word should be said as to the possible effect of a slowing down of the Government's gold sterilization operations upon the supply of Government issues. But for gold sterilization, and the borrowing which it entails, Government trust fund purchases would have resulted in a substantial decrease in the market supply of these issues during the first six months of 1937. Should the hoped-for improvement in the Federal budget for 1938 be realized, the necessity for investing trust funds of more than a billion dollars in Government securities, suggests a more rapid retirement of public debt in the hands of the public during the coming year, gold purchases aside.

The Half Year's Profits

Reports for the second quarter and the half year published during the past month by leading corporations make a good showing, considering the difficulties under which business has labored during the period. Most of the statements issued thus far indicate a continuation of the expansion in sales and the upward trend of earnings prevalent since 1932, but a slowing down of the rate of increase. Enlarged volume and operating economies, however, have in many cases allowed concerns to improve their profits at a sustained rate, despite higher expenses for raw materials, labor and taxes, including the new payroll taxes.

Reports of 250 leading manufacturing and merchandising corporations for which separate figures by quarters are available show combined net profits, less deficits, of approximately $386,000,000 in the second quarter of this year, compared with $325,000,000 for the same group of companies in the preceding quarter and $311,000,000 in the second quarter of 1936. The second quarter's gain over last year amounted to 24.0 per cent, while in the first quarter a similar group of companies had a gain over last year of 53.5 per cent.

For the first six months there was a gain of 36.0 per cent. A tabulation of 315 leading companies shows combined profits, less deficits, of approximately $758,000,000 against $557,000,000 for the same companies last year. Aggregate net worth of these companies was $11,160,000,000 at the beginning of 1936 and $11,519,000,000 in 1937, upon which the profits for the half year were at the *annual rates* of 10.0 and 13.2 per cent respectively.

Changes by Major Industries

The accompanying table shows the changes in profits and in annual rate of return of leading companies for the first half years 1936-37, classified according to major industrial groups. Many of the largest gains were in the industries making capital goods, including the iron and steel industry where the rise was outstanding. Output of steel ingots for the first six months of this year amounted to 28,764,633 tons, which was 35 per cent above that of the corresponding period last year and within one per cent of the all-time high in 1929. Without the 22 steel companies, the increase in combined profits of all industrial groups this year

INDUSTRIAL CORPORATION PROFITS FOR FIRST HALF YEAR

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Half Year 1936	Net Profits Half Year 1937	Per Cent Change	Net Worth January 1 1936	Net Worth January 1 1937	Per Cent Change	Annual Rate of Return % 1936	Annual Rate of Return % 1937
8	Amusements	$11,763	$20,533	+ 74.6	$273,142	$291,452	+ 6.7	8.6	14.1
1	Autos—General Motors	140,573	110,545	— 21.4	930,667	970,843	+ 4.3	30.2	22.8
6	Autos—Other	30,262	28,847	— 4.7	141,581	153,769	+ 8.6	42.7	37.5
24	Auto Accessories	18,950	22,712	+ 19.9	183,400	198,928	+ 8.5	20.7	22.8
7	Baking	10,818	8,917	— 17.6	248,963	251,200	+ 0.9	8.7	7.1
17	Building Materials	6,652	13,206	+ 98.5	237,124	252,432	+ 6.5	5.6	10.5
14	Chemicals	72,081	83,953	+ 16.5	1,044,840	1,100,324	+ 5.3	13.7	15.3
8	Coal Mining	969	263	— 72.9	89,159	84,097	— 5.7	2.2	0.6
11	Electrical Equipment	29,239	46,964	+ 60.6	616,744	592,058	— 4.0	9.5	15.9
12	Food Products—Miscel.	30,735	29,755	— 3.2	489,390	494,081	+ 1.0	12.6	12.0
9	Heating and Plumbing	3,453	8,712	+152.3	184,122	192,427	+ 4.5	3.8	9.1
14	Household Goods & Sup.	15,260	24,171	+ 58.4	264,701	269,854	+ 1.9	11.5	17.9
1	Iron & Steel—U. S. Steel	16,239	64,735	+298.6	1,564,373	1,564,517	+	2.0	8.3
21	Iron & Steel—Other	22,457	59,457	+164.8	1,193,101	1,241,174	+ 4.0	3.8	9.6
19	Machinery	10,415	15,349	+ 47.4	119,777	136,409	+13.9	17.4	22.5
19	Merchandising	6,593	9,964	+ 51.1	224,995	229,322	+ 1.9	5.9	8.7
12	Mining, Non-ferrous	36,867*	65,133*	+ 76.7	980,340	1,044,564	+ 6.5	7.5	12.5
7	Office Equipment	6,997	11,794	+ 68.6	102,630	107,210	+ 4.5	13.6	22.0
7	Paper Products	2,647	9,159	+246.0	210,135	204,279	— 2.8	2.5	9.0
16	Petroleum	29,495	47,579	+ 61.3	814,422	871,423	+ 7.0	7.2	10.9
7	Railway Equipment	7,297	18,258	+150.2	388,513	396,203	+ 2.0	3.8	9.2
14	Textiles and Apparel	6,468	8,459	+ 30.8	99,386	101,795	+ 2.4	13.0	16.6
47	Miscel. Manufacturing	37,314	46,396	+ 24.3	560,196	586,383	+ 4.7	13.3	15.8
14	Miscel. Services	3,787	3,061	— 19.2	198,149	184,126	— 7.1	3.8	3.3
815	Total	557,331	757,922	+ 36.0	11,159,850	11,518,870	+ 3.2	10.0	13.2

* Before certain charges.

would have been but 22.2 per cent, instead of 36.0.

Sharp gains were made by many companies in lines such as building materials, heating and plumbing fixtures, electrical equipment, railway equipment, machinery and metals generally, chemicals, petroleum, paper, office and household appliances and supplies. Sales of many of these products expanded further this year, which served to lower unit production costs and to offset the rise in direct costs for labor, materials and taxes. The widespread labor troubles, however, in the steel, automobile and numerous other industries held back profits of a good many companies during the half year and especially for the second quarter.

A list of representative manufacturing corporations, with percentage changes in sales for the half years 1936-37, is given in the adjoining column; also a list of chain store, department store and mail order organizations. Allowing for the rise in wholesale and retail prices, it appears that the increase in physical volume of goods sold has been somewhat less than the rise in dollar sales.

In the industries making consumers' goods, such as bakery and miscellaneous food products, textiles and apparel, etc., which enjoyed only a relatively small advance in sales this year, the trend of earnings was not especially favorable. Operating expenses have been raised by increases in wages, shortening of hours, higher prices of raw materials purchased and higher taxes, including payroll taxes. Both the manufacturing and distributing branches of the food industries usually operate on narrow margins of net profits, and in many cases it has

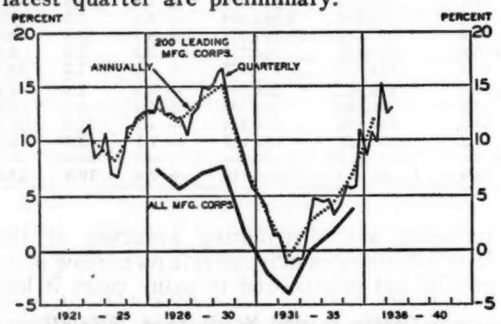
% Change in Half Year's Sales, 1936-1937

Manufacturing		Merchandising	
Air Reduction Co.	+21.0	American Stores Co.	+ 0.3
Allis-Chalmers Mfg.	+59.4	Barker Bros. Corp.	+27.4
Amer. Radiator & S. S.	+36.0	Bond Stores	+19.8
Atlas Powder Co.	+20.1	Chicago Mail Order Co.	+ 5.6
Baldwin Locomotive	+95.9	Consol. Retail Stores	+ 9.0
Barber Company	+27.2	Crown Drug	+ 4.3
Beatrice Cream'y Co.	+10.2	Edison Bros. Stores	+26.1
Blaw-Knox Co.	+64.0	Fanny Farmer Candy	+19.4
Caterpillar Tract. Co.	+37.4	Marshall Field & Co.	— 1.3
Certain-teed Products	+11.3	W. T. Grant Co	+ 3.2
Chrysler Corporation	+14.2	H. L. Green Co.	+11.8
Cluett, Peabody & Co.	+24.1	Interstate Dept. Stores	+ 7.3
Continental Oil	+19.5	Jewel Tea Co.	+15.9
Continental Steel	+33.2	S. S. Kresge Co.	+ 6.7
Endicott-Johnson	+28.2	S. H. Kress & Co.	+ 2.7
Fairbanks, Morse & Co.	+36.4	Kroger Groc. & Bak.	+ 9.9
General Electric Co.	+43.4	Lane Bryant, Inc.	+ 5.1
General Motors Corp.	+ 3.7	Lerner Stores Corp.	+ 9.9
Hercules Powder Co.	+44.0	McCrory Stores Corp.	+ 3.9
Interlake Iron Corp.	+77.0	McLellan Stores Corp.	+ 9.5
Inter. Shoe Corp.	+19.0	Melville Shoe Corp.	+14.4
Johns-Manville Corp.	+44.5	Montgomery Ward	+28.7
Kimberly-Clark Corp.	+21.5	G. C. Murphy Co.	+17.3
Lone Star Cement	+22.2	National Tea Co.	+ 5.8
Mead Corporation	+66.2	Neisner Bros., Inc.	+ 7.0
Natl. Cash Register	+27.6	J. J. Newberry Co.	+ 7.3
Natl. Lead Co.	+38.6	J. C. Penney Co.	+ 9.0
Phillips Petroleum	+19.3	Peoples Drug Stores	+ 10.5
Remington Rand, Inc.	+22.1	Reliable Stores Corp.	+21.6
Ruberoid Company	+38.7	Rose's 5-10-25c Stores	+12.0
St. Joseph Lead	+104.7	Safeway Stores, Inc.	+15.0
Simmons Company	+29.1	Schiff Company	+ 2.6
Studebaker Corp.	+18.1	Sears, Roebuck & Co.	+20.0
Sun Oil Co.	+22.2	Spencer Chain Stores	+38.6
Tide Water Assoc. Oil	+24.0	Spiegel, Inc.	+34.3
Union Oil Co.	+29.6	Sterchi Brothers	+16.7
Wesson Oil & Snowd'ft	+15.2	Sun Ray Drug	+13.5
Western Electric Co.	+48.2	Walgreen Co.	+ 8.9
Westinghouse Electric	+31.9	Western Auto Supply	+63.0
Wheeling Steel Corp.	+34.6	F. W. Woolworth Co.	+ 7.3

not been practicable to pass on the full increase in costs by marking up prices, due to competitive conditions and customer-resistance already aroused by the rising cost of living.

Some enterprises, wholesale and retail distributors as well as manufacturers, carrying heavy inventories, have benefited by the rise in commodity prices. Such profits, however, are not regularly recurring, the temporary advantage soon wearing off as old stocks are replaced at prevailing market prices. Moreover, the carrying of heavy inventories involves risk of loss in the event of a decline of prices.

The quarterly trend of profits of 200 large industrial corporations over a period of years is given in the accompanying chart, which shows the wide difference between rate of return of leading companies and the rate for all manufacturing corporations. Figures for the latest quarter are preliminary.



Annual Rate of Net Profits upon Net Worth of All Manufacturing Corporations in the United States, and of 200 Leading Corporations.

Railroads and Utilities

Railroad freight-car loadings for the first half year 1937 were 15 per cent larger than in the corresponding period of 1936, but 25 per cent below 1929. Gross revenues of all Class 1 steam railroads for the half year increased from approximately $1,873,000,000 to $2,087,000,000 or by 11.5 per cent, and net operating income increased from $238,000,000 to $297,000,000 or by 24.9 per cent. After payment of interest charges the railroads as a group had a balance before dividends estimated at around $30,000,000, which contrasts with a deficit of $24,000,000 in the first half of last year. On the outstanding railroad capital and surplus, however, aggregating approximately $13,618,000,000, the net income for the first half year was at an annual rate of less than ½ of one per cent. Moreover, any general increase in railroad wages, such as is now under negotiation, would have an important effect upon net earnings, especially of the weaker roads.

Electric power production has continued to expand steadily and for the first half year 1937 was 14 per cent larger than in the same period of 1936, and 30 per cent above the 1929 level. A group of 25 of the more important systems supplying electric light and power, gas and other services, which have issued reports for the twelve months ended June 30, shows an increase of 5.6 per cent in combined gross revenues as compared with a year ago, and a gain of 13.3 per cent in net income.

Operating revenues of the American Telephone & Telegraph Company and its 25 principal telephone subsidiaries, for the twelve months ended May 31, 1937, increased over the preceding year by 7.8 per cent. Operating expenses increased only 3.9 per cent (except taxes, which rose 20.2 per cent), and net income available for preferred and common dividends increased 28.2 per cent.

The French Financial Crisis

In the August, 1926, number of this publication nine pages were given to an account of the struggle of the French people to reestablish their monetary system on a firm basis, after the Great War. Eight years had elapsed since the armistice, the national debt had been doubled by reconstruction outlays, budget deficits and interest accumulations, and was up about nine times from its pre-war total. The currency had increased in volume and depreciated in value, until at the end of July, just ten years ago, its exchange value in United States money was down from 19.3 cents to approximately 2 cents.

At this stage, Premier Poincare had rallied all parties and factions to "save the franc" from the fate of the German mark, and by a combined and truly heroic effort to increase revenues and reduce expenses, the budget was balanced, and the currency stabilized at about one-fifth of its pre-war value, i.e., 3.92 United States cents.

In the October, 1936, number of this Letter a four-page announcement was made that another economic and monetary crisis had developed in France and that a second act of devaluation was pending, to adjust the currency to a new situation. The second readjustment of the French monetary system occurred under the administration of Premier Blum, who headed a political coalition known in France as the "Front Populaire," which was raised to power by the election of May, 1936. Premier Blum had not advocated another devaluation, and, like all Frenchmen since the time of the "assignats," had decried the idea of "inflation." Nevertheless, he wanted the Government to increase the purchasing power of the people, especially those of low incomes, and this was the motto of his administration, but he resigned on June 21, 1937, little more than a year from taking office, in the midst of a third monetary crisis.

For a full understanding of these developments it is necessary to understand the circumstances behind the Poincare reorganization,

and, furthermore, the continuing effects of the Great War upon all monetary systems, down to the devaluation of 1936. For most of the history we must refer to the articles mentioned above, but interest now centers upon French policies of the last year, and their effects upon the purchasing power of the French people of all classes.

Premier Blum and his Cabinet resigned as the result of a divided Parliament, the Chamber of Deputies standing by him, while the Senate declined to do so. He asked his supporters to support his choice for his successor, viz: M. Camille Chautemps, a well-known leader of a "liberal" group, standing between the Conservatives and the "Left" parties, headed by Premier Blum, but friendly to the latter. M. Chautemps is a man of distinction, having been Premier twice before, in recent years.

The situation had been critical for several months, owing to an increasing adverse trade balance, rising living costs, decline of the franc in the foreign exchanges, decline of government bonds in the market, and increasing evidence that capital was leaving the country.

For the Finance Ministry, Premier Chautemps named M. Georges Bonnet, then French Ambassador to the United States, who arrived in Paris on June 29. On that day the Parliament gave the Premier power to rule by decree until August 31st, and, as temporary measures, the stock exchange was closed, a moratorium declared on debts, speculation in francs forbidden, and the policy adopted of allowing the franc to "find its own level," meaning that gold payments were suspended.

In his first speech to the Chamber, the new Finance Minister had unpleasant truths to reveal. In less than four weeks 7,700,000,000 gold francs had left the country, and the gold reserve had fallen from 158,000,000 ounces in 1933 to 125,000,000 ounces at the beginning of 1936, and to 69,284,000 ounces on July 1, 1937. By the latter date the gold stabilization fund of 10,000,000,000 francs, set up last October, out of the devaluation profit, had practically all disappeared presumably in foreign exchange settlements and representing in part a flight of capital from the franc.

The Conditions That Produced Disorder

Apparently the Poincare devaluation was well designed to establish an equilibrium on the basis of then-existing economic conditions, but the world was headed into the most catastrophic disturbance of economic relations that ever had been known. It affected not only international relations but the internal trade of all countries. As reported by the Economic Bureau of the League of Nations, international trade fell two-thirds in value from 1929 to 1932, and we know that in this country railway traffic declined nearly one-half. Of course, economic conditions in France were affected by conditions in the rest of the world.

Under the international gold standard, which by 1928 had been generally restored, the currencies of all countries were closely related, and prices tended to be held in corresponding relations. Exchange rates, and occasional shipments of gold in settlement of balances, maintained the equilibrium of the system, which tended to give stability to trade, employment, the relations between debtor and creditor, and all economic relations. The natural flow of capital in response to needs tended to minimize disturbing influences, and trade was made to practically settle itself.

The violent changes in trade relations from 1929 forward, (all related directly or indirectly to War influences) caused so great a strain upon the gold-standard-links between nations that they gave way, and monetary conditions became incalculable and highly speculative, throwing all business into confusion.

The strain was concentrated upon the Bank of England, the center of world exchanges, and its involuntary suspension of gold payments September 21, 1931, was a heavy blow to France. The Bank of France lost a large sum by the depreciation of its account with the Bank of England, and other French and foreign holders of London funds suffered in like manner, but the most serious loss was by the world-wide disruption of trade relations and the unemployment and loss of purchasing power resulting therefrom.

The Period of Deflation

France had readjusted her monetary system when the world was at the very peak of the War and post-War inflation, and after Great Britain and other countries, (eventually including the United States) had left the common gold base for cheaper currencies, the pressure upon the French economy increased. As trade became disordered and volume of business declined, unit costs increased and it became more difficult to reduce prices, while in the devalued countries both costs and prices were on a lower basis. After 1929 French foreign trade fell off, but in exports more than imports. Thus the adverse trade balance increased, and after foreign credits were exhausted this became a menace to the gold reserve. France had become a good market to sell in, but a poor place to sell from.

One of the supports of the gold reserve had been the expenditures of foreign tourists and visitors, but with competing currencies falling, while the French franc was unyielding, the number of visitors fell off one-half. Their expenditures in 1929 were estimated at 6,000,000,000 francs and in 1935 at 750,000,000.

That the internal economy was affected is evidenced by the decline of railway traffic by 40 per cent. Wage payments and other ex-

penses had increased during the boom period, and now declining revenues increased the annual deficit. Since 1921, by reason of Government ownership or guarantees, all railway deficits have fallen on the Treasury. From 1930 to 1936 these aggregated over 22 billion francs, which represents more than a fourth of the increase in the public debt of the country since 1930.

Wage-rates generally remained near the inflation level, but work was "spread" and actual compensation was low on the average, because of idle time. Agriculture was in distress, for despite the tariff protection the low-priced foreign products came in and beat down home prices to below the normal level, while the farmers paid twice over for everything they bought. The farmers became so belligerent that the Government granted direct subsidies upon the chief farm staples, which, of course, increased the cost of living to city dwellers.

After 1932 the French position was made more difficult by the fact that the tide had turned for the countries that had devalued, and partly at the expense of the countries clinging to gold. The entire situation would have been surmounted more readily if all had been on a common and firm basis, but the French people were struggling to reduce costs and prices while the tendency abroad was now upward. The devaluing nations obtained an apparent advantage while their own currencies were falling, but that advantage must end when zero is reached, and France had been near enough to that point to avoid it if possible. Moreover, she had been near enough to Germany to know what zero meant.

It tells something of the perplexities of this time that France had seventeen premiers and cabinets from July 26, 1929, when Poincare retired, to the election of 1936; and all sought to restore the equilibrium by reducing costs and prices. From time to time premiers and ministers yielded to special criticism or adverse votes, but on critical votes the Parliament stood against further devaluation, and on the whole, the country sustained it. The country had not forgotten the lesson of 1926, when the union government was formed to "save the franc" at one-fifth of its former value, and was resolved to yield no more. To reduce the costs of government, ministries cut both government salaries and pensions, and to reduce the costs of living they regulated prices and wages in private industries and trade, to an extent perhaps never before attempted in a democracy. Price-fixing decrees were issued by scores, and Laval was quoted in 1935 as saying that he would regulate anything from "sardines to cement." Certainly no more courageous and determined effort ever was made.

Trend of French Prices

The peak of French wholesale prices was touched in 1926, at 695 (1913 = 100), from which in 1931 it had declined to 502 in French currency, or 102 in gold. From that point the deflation pressure on prices was constant until 1935, when the index of currency prices was 338 and of gold prices 68. Our own index in 1931 was 104.5 and in 1935, in terms of the old gold dollar, would have been 68 also, but in the new dollar was 115. Thus the Government had practically restored the international price-level in France, but the tragedy of the situation was that the price reductions were only partially reflected in living costs. The cost of living index remained above 500 until 1935, when the average was registered as 483. But unemployment remained high, although falling.

The public everywhere is now organized in groups, for the purpose of protecting or promoting group interests, and when conditions are pressing inflated prices downward, each group resists stubbornly in its own behalf, without much understanding of the larger interest that all have in common. If the Government attempted to economize anywhere, some group surely protested, or if it attempted to increase revenues, the reaction was the same.

But despite discouragements the Government's steadfast policy was slowly gaining; at the end of 1935 the situation was much improved. The adverse balance of payments had been substantially reduced (almost cut in half) the official index of industrial production was rising and the index of living costs in Paris was down from 102 in 1931 to 87. But the time was too short.

Human nature cannot be counted on to endure unusual strains for long periods without knowing why it should, which is the case with most of us in a world depression. The election was coming on in the Spring of 1936, and public sentiment in France had been shaping against the French Government, not so much for any one reason as because the people had suffered, and blamed the Government.

A Year of Change

The "Front Populaire" campaign was against existing conditions, emphasizing such questions as concentration of wealth and power, and the need of larger incomes for the mass of the people, — subjects familiar in all countries, including the United States. It was heated, as campaigns appealing to class feeling are sure to be, and when the new ministry came to power nearly a million wage-workers were out on strikes. The "sit-down strike" which came into prominence then was born of the campaign. The workers were aroused to take a new stand for what they believed to be their "rights." The new administration was committed to their cause, and doubtless felt

compelled to take sides with them, although urging a policy of compromise.

The numerous and varying demands of different groups of French workers, for higher wages, shorter work-time, vacations with pay, etc., together with the violent disturbance of working relations, had the general effect of raising costs and prices, with resulting effects in reduction of French exports and increase in the import balance of trade. As European political conditions continued unsettling, and difficulties of the French Treasury, under burden of heavy armament and other expenses, did not ameliorate, the results were manifest in outflow of capital, rising interest rates, a diminishing gold reserve, etc., — all leading up to, and compelling, the second devaluation of the franc.

The first effects of this devaluation were favorable in some respects. Capital had been anticipating devaluation, by leaving the country, and after the event, was inclined to come back and profit by the "mark-up" in nominal value. Furthermore, trade was stimulated by the prospect of higher prices, which were not slow in coming. But the rise of prices meant a further rise in the cost of living, which had now moved from the official index, 486, in April, 1936, (month before election) to 581 in March, 1937, which was about the time when the Premier urged his friends not to press him too hard, suggesting a "pause" until the economic system could catch up with the rapid changes. Pronounced symptoms were apparent of another flight of capital, and on June 14 two leading members of the Committee in charge of the "Stabilization Fund" resigned, in disagreement with the Government's plans for meeting the crisis. At about this time the Premier asked for extraordinary powers to handle a crisis, and failing to obtain them resigned on June 21. A new Premier and Minister of Finance followed. The franc declined to 3.84 cents by July 1, and subsequently to a low of 3.71⅛, from which it has rallied to 3.75 cents.

The New Stand

The new officials have taken vigorous action to make good the budget deficit, and to modify the fluctuations in exchange rates and government securities. The principal need is for more revenues and less expenditures. A deficit is estimated in the "ordinary" budget of 6,000,000,000 to 8,000,000,000 francs; also a railway deficit and other obligations, aggregating about 10,000,000,000; extraordinary expenditures, mainly for armaments, placed at 8,000,000,000, and maturing debt 7,000,000,000, totalling in all 31,000,000,000 to 33,000,000,000 francs. Loans are proposed for the last two items, and railway charges will be raised. New taxes have been levied by decrees, estimated to cover the ordinary budget. Furthermore, the latest ministerial conference has decided to reduce expenditures on public works during the remainder of this year, by 1,900,000,000 francs.

A measure is proposed against "tax evasion," and also a 100 per cent tax on speculation in foreign exchange, but, as to the latter, the Finance Minister wisely observed, that the "real way to strangle speculation is to restore order in French finance and economy." This remark may be adapted to apply to the entire problem. Neither new taxation, a new franc, nor the best intentions or resolutions, can restore stability and prosperity to France unless the established principles of the economic order are observed.

The outcome is dependent upon the support of the French people, and this depends upon an understanding of the essential principle involved, which is simply that a Government, like a family, must live within its income. There is no science of Finance or Economics that belongs exclusively to Governments. They must obey the rules of the humblest household. The economic equilibrium is the basic principle of all economic relations.

In the field of industrial relations, the task must be to find some workable basis upon which employers and employes can unite in overcoming high costs and in restoring the productivity of French industry. Naturally, this will take time, but there is evidence that progress is being made in some directions. One of the interesting developments of the past year has been the stimulus given to factory modernization and improvement. This may be at least a partial answer to the problem of costs.

Assurance has been given by the new French Government of its desire to maintain the tripartite agreement for its original purpose, as stated by the Blum Government of last October, to the Governments of the United States and Great Britain. The latter have expressed their desire to continue the cooperation, but evidently the efficacy of any cooperation of this kind depends upon the ability of the participating Governments to balance their own budgets. This is the foundation of everything. And of course it is preposterous to say that the French nation cannot live within its means, if it wants to, and understands the necessity.

THE NATIONAL CITY BANK OF NEW YORK

The National City Bank of New York

Head Office · 55 WALL STREET · *New York*

Seventy-three Branches in Greater New York	Seventy-one Branches in Twenty-three Foreign Countries

Condensed Statement of Condition as of June 30, 1937

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS

Cash and Due from Banks and Bankers		$ 549,793,277.03
United States Government Obligations (Direct or Fully Guaranteed)		419,401,464.82
State and Municipal Bonds		92,891,746.00
Other Bonds and Securities		140,441,108.95
Loans, Discounts and Bankers' Acceptances		710,217,081.27
Customers' Liability Account of Acceptances		23,909,693.07
Stock in Federal Reserve Bank		3,637,500.00
Ownership of International Banking Corporation		8,000,000.00
Bank Premises		51,130,151.77
Other Assets		6,747,193.61
Total		$2,006,169,216.52

LIABILITIES

Deposits		$1,807,822,047.23
Liability as Acceptor, Endorser or Maker on Acceptances and Bills	$58,968,961.89	
Less: Own Acceptances in Portfolio	14,542,762.99	44,426,198.90
Items in Transit with Branches		5,046,056.38
Reserves for:		
Unearned Discount and Other Unearned Income		4,966,139.00
Interest, Taxes and Other Accrued Expenses		6,308,193.86
Dividend		2,604,000.00
Capital	$77,500,000.00	
Surplus	43,750,000.00	
Undivided Profits	13,746,581.15	134,996,581.15
Total		$2,006,169,216.52

Figures of Foreign Branches are as of June 25, 1937.

Securities carried at $105,247,848.45 in the foregoing statement, consisting of $73,481,216.32 of United States Government Obligations, $18,913,391.52 of State and Municipal Bonds, and $12,853,240.61 of Other Bonds and Securities, are deposited to secure $79,730,626.93 of Public and Trust Deposits, and for other purposes required by law.

(Member Federal Deposit Insurance Corporation)

City Bank Farmers Trust Company

Head Office · 22 WILLIAM STREET · *New York*

Condensed Statement of Condition as of June 30, 1937

ASSETS

Cash and Due from Banks	$ 47,654,882.16
United States Government Obligations (Direct or Fully Guaranteed)	45,046,502.05
State and Municipal Bonds	6,500,386.42
Other Bonds and Securities	19,697,974.95
Loans and Advances	6,693,556.98
Stock in Federal Reserve Bank	600,000.00
Bank Premises	4,353,338.25
Other Assets	2,432,835.35
Total	$132,979,476.16

LIABILITIES

Deposits	$105,996,460.16
Reserves	2,687,751.81
Reserve for Dividend	497,043.70
Capital	10,000,000.00
Surplus	10,000,000.00
Undivided Profits	3,798,220.49
Total	$132,979,476.16

Securities carried at $1,516,043.84 in the foregoing statement, consisting of $1,370,000.00 of United States Government Obligations, and $146,043.84 of State and Municipal Bonds, are deposited with public authorities for purposes required by law.

(Member Federal Deposit Insurance Corporation)

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